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Selling biscuits in Fort Knox

Once upon a time there was a big, international IT-company that was very successful. The market for its products was expanding but demand had its ups and downs and the downs could be really deep. During the last of those down periods almost all production was concentrated to just one production unit. This was cost efficient but also realized to be risky so the company spent quite a lot of money on different security measures. Fences, cameras, guards, id-cards, passage controls, alarms, sprinkler systems and so on – all on a 24 hour basis. The risk strategy was obviously risk concentration (also called the Fort Knox-strategy) i.e. to put all your eggs in one basket and protect the basket extremely well. Strangers that entered into the factory could e.g. by accident cause a fire or even turn out to have evil intentions. Company management realized that this must not happen because a production break-down could have so severe consequences that it might affect the price of the company shares on the stock market.

One day, when the factory manager was walking around on the shop-floor of the factory, he was approached by some schoolchildren with small boxes with biscuits asking him if he would like to buy some and support their school trip.

It turned out that the children had entered through the gate where the finished goods were delivered to the arriving trucks. And no one had stopped them simply because no one was at the gate when they entered. It turned out that the loading activities that day were conducted by personnel from a staffing company. They had got instructions not to open up the loading gate unless loading was going on and never to let any stranger in. But it was a hot day so the personnel at the gate wanted to get some fresh air and anyhow they were there all the time guarding the door – so what could happen. But obviously the guarding was not so efficient after all. After the incident they were probably somewhat surprised, asking themselves what the quarrel was all about. They did not realize the consequences of breaking the rules simply because they did not understand the importance of their task seen in a supply chain perspective. And by the way why should they really bother – they were only there temporarily.

Outsourcing of manufacturing activities has been discussed a lot – also from a risk perspective. Outsourcing of services though seems not to be equally focused. But that could as was just illustrated have huge risk consequences as well. In the company above it turned out that also a lot of other functions that traditionally had been conducted by their own staff were now outsourced. It also turned out that the companies that should deliver the outsourced services in their turn bought some of those services from other companies who in their turn and so on. There were new faces on the shop-floor almost every day. An id-card could easily be handed over to someone else without detection so in the end no one really had any overview and control of who was actually in the factory building.

The conclusion is that we need to fully realize the risks linked to outsourcing of services, especially chains of outsourcing. But we must also realize that just as the Fort Knox strategy might be a good idea for storing gold, it might be a bad strategy for production units with substantial inflow and outflow of goods and human beings every day.

Best regards

Ulf

Articles, papers and literature

Printed articles

- Appelqvist, P. & Gubi, E. (2005):** "Postponed variety creation: case study in consumer electronics retail", *International Journal of Retail & Distribution Management*, Vol. 33(10), pp. 734-748.
- Brannen, L. & Cummings, J. (2005):** "Number one revenue threat: Supply chain disruptions", *Business Finance*, Vol. 11(12), p. 12.
- Engle, P. (2005):** "Planning for disaster", *Industrial Engineer*, Vol. 37(11), p. 22.
- Gonzales, G. (2005):** "Contingent losses require careful management", *Business Insurance*, Vol. 39(18), p. 18.
- Juttner, U. (2005):** "Supply chain risk management: Understanding the business requirements from a practitioners perspective", *International Journal of Logistics Management*, Vol. 16(1), pp. 120-141.
- Kleindorfer, P. R. & Saad, G. H. (2005):** "Managing Disruption Risks in Supply Chains", *Production and Operations Management*, Vol. 14(1), pp. 53-68.
- Melnyk, S., Zsidisin, G. & Ragatz, G. (2005):** "The Plan Before the Storm", *APICS Magazine*, Vol. 15(10), November/December, pp. 32-35.
- Sheffi, Y. & Rice, J. (2005):** "A supply chain view of the resilient enterprise", *MIT Sloan Management Review*, Vol. 47(1), pp. 41-48.
- Sodhi, M. (2005):** "Managing demand risk in tactical supply chain planning for a global consumer electronics company", *Production and Operations Management*, Vol. 14(1), pp. 69-79.
- Sutton, S. (2006):** "Extended-enterprise systems' impact on enterprise risk management", *Journal of Enterprise Information Management*, Vol. 19(1), pp. 97-114.
- Ying-Pin, Y. (2005):** "Identification of factors affecting continuity of cooperative electronic supply chain relationships", *Supply Chain Management: An International Journal*, Vol. 10(4), pp. 327-335.
- Zsidisin, G. & Smith, M. (2005):** "Managing Supply Risk with Early Supplier Involvement: A Case Study and Research Propositions", *Journal of Supply Chain Management*, Vol. 41(4), pp. 44-57.
- Zsidisin, G. A. (2005):** "Managing Commodity Spend in Turbulent Times", www.capsresearch.org

Reports

Two reports from the Cranfield Supply Chain Resilience project can now be downloaded via the web page, www.som.cranfield.ac.uk/som/research/centres/lscm/risk.asp The full reports can also be ordered in paper format from the same web page.

- "Creating Resilient Supply Chains: A practical Guide" (Peck et al. 2003)
- "Understanding Supply Chain Risk: A Self-assessment Workbook"

Special issues

International Journal of Physical Distribution & Logistics Management, Vol. 34(5) and Vol. 34(9), 2004. Two special issues on "Logistics and Supply Chain Risk and Uncertainty". Guest editor: Prof. Joseph L. Cavinato.

International Journal of Operations & Production Management. Special issue on "Supply Management: The Emergence of an Academic Discipline?". Guest editor: Prof. Paul D. Cousins.

Journal of Operations Research Society. Special issue on "Risk based methods for supply chain planning and management". Editors: Poojari, Lucas & Mitra. Call ended July 8, 2005.

Books

- Sheffi, Yossi (2005):** *The Resilient Enterprise – Overcoming Vulnerability for Competitive Advantage*, The MIT Press, London, UK.
- Brindley, Claire (ed.) (2004)** *Supply Chain Risk: A Reader*, Ashgate Publishing Limited, UK.
- Pfohl, Hans-Christian (ed.) (2002)** *Risiko- und Chancenmanagement in der Supply Chain: proaktiv - ganzheitlich - nachhaltig*, Erich Schmidt Verlag, Berlin, Germany.

Research projects and research groups

Michigan State University

A research team from Michigan State University, consisting of George A. Zsidisin, Gary L. Ragatz, Steven A. Melnyk, and Laird A. Burns, is currently conducting a study investigating supply continuity and risk management. This study is sponsored, in part, by a grant from IBM. Results from this study are anticipated to both advance theory in supply chain risk management, as well as provide participating firms an audit instrument and assessment of risk of their inbound supply channels. To date, one firm has been involved by having a survey instrument deployed throughout their purchasing function, with several additional firms slated for participation. Final results of this study will be presented at the 6th Annual ISCRiM Meeting.

A supply chain risk management forum at Cranfield

On October 17th 2005, we launched the supply chain risk management forum: This is a novel supply chain research endeavour aimed at bringing together commercial interests in effectively managing supply chain vulnerabilities, with the UK's leading research capability in this area of growing concern.

Purpose: The Forum is to be both practically and commercially orientated. Its purpose is to provide an opportunity for a relatively small group of corporate members to come together:

- To help shape the agenda for research into best supply chain management practices.
- To set expectations for the collaborative work of the Forum.
- To utilize the resources of the Forum to enable the improvement of their own risk management processes.

Agenda: Themes that the Forum will be exploring include:

- Developing improved tools for identifying and assessing risk. Measuring risk aggregation and risk tolerance.
- Understanding the connections between process design, information system design, network design, organisational design and risk.
- How to better identify and manage the risks involved in global sourcing/out-sourcing.
- Benchmarking best practice in supply chain risk management.

Request for information from Helen Peck

As those of you who attended the 2005 ISCRiM conference will know, I'm doing a project on the scope and purpose of business continuity management in some of the UK's biggest food retailers, manufacturers, their suppliers and logistics providers. The work is for the Department for Environment and Rural Affairs (Defra) which has overall lead agency responsibility for maintaining the food and drink supplies in case of a national emergency. The project is going quite well, and is likely to be integrated into a wider programme of emergency planning work underway within several UK government departments. The sponsors are also aware that food & drink supply chains are global and that there are some potential scenarios (e.g. an Avian Flu pandemic) that are likely to affect more than one country at a time. What they would really like to know is whether anyone else in the ISCRiM network is involved in or knows of any similar programmes of work underway in their own countries to maintain food supply chains during national emergencies.

We are already aware of the food chain security work underway at Michigan State - thanks to the presentation by Prof. David Closs to ISCRiM members in 2004 and had an update on the US programme in October when the Department of Homeland Security sent Susan Harlander and Jeff Sholl over from Minnesota to brief the UK government departments.

Any other leads, particularly for Europe, would be gratefully appreciated. Contact Dr. Helen Peck: h.peck@cranfield.ac.uk

Conference presentations

Professor Simon Burtonshaw-Gunn chaired a one day conference on 'Risk Management Considerations in Construction Projects' at the Salford University's Centre for Research and Innovation in December, this was attended by industrialists and academics looking at risk management models and frameworks, the people aspect of risk management, considerations of international risks and ended with a presentation by ISCRiM member Prof Bob Ritchie on supply chain risk. Further details are available on the website www.scriforum.org.uk

Coming conferences

IPSERA 2006. San Diego (CA), USA, April 6-8. www.ipsera.org

NOFOMA 2006. Oslo, Norway, June 8-9. www.nofoma.org

4th International Conference on Supply Chain Management & Information Systems (SCMIS 2006). Taichung, Taiwan. July 5-7.
www.nchu.edu.tw/SCMIS2006

LRN 2006. Newcastle, UK. September 6-8. www.lrn2006.com

Complexity and Risk Management in Supply Chains. Hamburg International Conference of Logistics 2006. Hamburg. Germany. September 15-16, 2006.
www.hicl.org

The 6th International Research Seminar on Supply Chain Risk Management. University of Wiesbaden, Germany. September 18-19, 2006.

Appointment

Dr Richard Wilding has been appointed as Chair in Supply Chain Risk Management by Cranfield School of Management. See <http://www.som.cranfield.ac.uk/som/news/story.asp?id=284> for further details.

Conferences/workshops that have taken place

Workshop on "Performance and Risk Measurement: Operations, Logistics and Supply Chains". Bocconi University, Milan, Italy, December 8-10, 2004.
www.critom.unibocconi.it

IPSERA 2005. Archamps, France. March 20-23. Among the topics are "Supplier risk management".
www.ipsera.org

NOFOMA 2005. Copenhagen, Denmark, June 9-10. Special track for "Supply chain risk management".
www.nofoma.org

ISL 2005. Lisbon, Portugal, July 3-5. www.isl21.org

ICSEng05 - 18th International Conference on Systems Engineering. Las Vegas (NV), USA, August 16-18. One of two main themes was "Risk management".
www.icseng.info/strm.htm

LRN 2005. "International Logistics and Supply Chain Management". Plymouth, UK. September 7-9.
www.lrn2005.com

Effective Disruption Management Seminar. Stanford University, September 8, 2005.

The 5th International Research Seminar on Supply Chain Risk Management. Centre for Supply Risk and Resilience, Cranfield School of Management. September 12-13, 2005. Cranfield University.

Exchanging Knowledge; Coping with Supply Chain Risks. Vienna, Austria, October 11-13, 2005. Arranged by the Supply Chain Council. www.supply-chain.org

Interesting Internet links

ASIS – An almost 50 year old organisation for the security profession with 33'000 members worldwide. www.asisonline.org

CAPS - Centre for Advanced Purchasing Studies. www.capsresearch.org

Centre for Supply Risk and Resilience at Cranfield
www.som.cranfield.ac.uk/som/research/centres/lscml/risk.as

Globalcontinuity.com - A portal for business continuity and disaster recovery.
www.globalcontinuity.com

The Institute of Risk Management. www.theirm.org

IRMI.com - The homepage for International Risk Management Institute, Inc.
A database over risk management articles and other useful information.
www.irmi.com

Procurement Strategy Council. www.psc.executiveboard.com

Risk Transfer Magazine. Useful links to organisations, conferences, books and articles. To get full access to the articles you have to subscribe to the Risk Transfer Magazine. www.risktransfermagazine.com

ROSS (Reliability, Safety and Security Studies). Norwegian University of Science and Technology. www.ntnu.nolross

SCOR - Supply-Chain Council. www.supply-chain.org

SOLE - The International Society of Logistics. www.sole.org or
www.soleurope.org (European partner organisation)

SURVIVE - The Business Continuity Group. An international, industry-wide group for business continuity practitioners with 3000 members.
www.survive.com

Wharton School, Risk Management and Decision Process Centre
Working papers and newsletter to download. <http://grace.wharton.upenn.edu/risk>

International journals on risks

- Enterprise Risk. Informa Professional, London.
- Journal of Risk and Uncertainty. Kluwer.
- Journal of Risk Research. (The official journal of the society for Risk analysis Europe and the Society for Risk Analysis Japan). Carfax Publishing.
- Risk Analysis – an international journal. Blackwell.
- Risk Transfer Magazine. Ark-group Publishing. London.
www.risktransfermagazine.com
- Risk Transfer E-bulletin. Ark-group Publishing. London. (Free)
www.risktransfermagazine.com/newsletter.asp
- Risk Management. Gale Group. Thomson Corporation Company.
- Security Management
- Treasury & Risk Management

ISCRIM News

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Download old issues from
www.iscrim.org. There you will also find some information about the ISCRiM Network.

ISCRIM – The International Supply Chain Risk Management Network

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Issue plan 2006

Issue	Deadline for Contributions	From Print
2006:1	January 10	January 20
2006:2	April 10	April 20
2006:3	July 10	July 20
2006:4	October 10	October 20

Anyone interested in being added to the distribution list for the Newsletter will be so. Just send an e-mail to newsletter@iscrim.org and express your wish. There is no fee - the newsletter is free.